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CENTRAL INTELLIGENCE AGENCY
NATIONAL FOREIGN ASSESSMENT CENTER

11 March 1980

USSR: ECONOMIC DENIAL SITUATION REPORT #8

Key Points

Grain: We can confirm an additional 300,000 tons of Soviet grain purchases during the past week, bringing the total since 4 January to 5.1 million tons for delivery by 30 September. [] Argentina's grain board has indicated that direct shipments to the USSR will be in accord with the understanding reached during General Goodpaster's visit. []

Eastern Europe: Hungary apparently has bowed -- reluctantly -- to Soviet pressures to provide 800,000 tons of grain from its harvest this year. If necessary, Budapest may compensate for shipments to the Soviets by importing West European barley. []

Western Negotiations: Unresolved questions on repayment terms are holding up implementation of the new French-Soviet credit pact. President Giscard apparently continues to maintain a tight rein on Franco-Soviet matters. After a three-month hiatus, Moscow has renewed talks with the French firm Pechiney as an alternate supplier for the \$500 million Sayansk aluminum smelter. []

Aid to Pakistan: Only Japan among the aid consortium membership has come forward with an offering much above levels of previous years. Bonn has reaffirmed it will not raise 1980 assistance beyond levels set prior to the invasion of Afghanistan. []

This memorandum was prepared by the Office of Economic Research with contributions by the Office of Political Analysis. Comments and queries about this report should be directed to []

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Grain Activity

During the past week we have been able to confirm the Soviet purchase of an additional 300,000 tons of Argentine wheat. At the same time, we now estimate deliveries of Canadian grain to the USSR during the year ending on 30 September at 4.0 million tons, compared with the 4.2-4.7 million-ton figure we reported last week. Confirmed grain purchases since 4 January from all sources for delivery by 30 September now stand at 5.1 million tons. Unconfirmed purchases, mostly involving Argentine grain, are currently estimated at 2.3 million tons. [redacted]

[redacted] Argentina's grain board has told [redacted] that direct shipments of grain to the Soviets would be in accord with understandings reached during General Goodpaster's visit -- 3 million tons of corn, 1 million tons of sorghum, and 0.5 million tons of soybeans. Traders put new Argentine sales to the Soviets at 2.0 million tons of corn, 0.8 million tons of wheat, 0.5 million tons of sorghum, and 0.5 million tons of soybeans. Trade estimates that additional Argentine corn and sorghum will go to the USSR are supported by the high premium prices still demanded for Argentine grain (see chart). [redacted]

A team of Soviet veterinarians arrived in Brazil 10 March to determine the extent of African Swine Fever (ASF). The findings concerning possible ASF contamination of Brazilian shipments of soybeans, soybean meal, and other products are expected to be a major factor in determining the size of Brazil/USSR trade in these products. The Soviets may already have contracted for some Brazilian soybeans and soybean meal. [redacted]

Brasilia may link grain and soybean sales to a Soviet agreement to provide Brazil with oil. [redacted]

[redacted] The USSR still seems to be refusing to commit oil to Brazil. [redacted]

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Eastern Europe

Hungary apparently has bowed -- reluctantly -- to Soviet pressure to provide the USSR with 800,000 tons of grain (mainly wheat) in 1980, a threefold increase over 1979 and well above the previous high of about 500,000 tons. Hungary plans to provide the grain from its own crop which -- according to early indications -- will be large. []

Hungary could supply the 800,000 tons even if its harvest falls below expectations by taking part of the 1 million tons of wheat it normally feeds to its own livestock or by diverting wheat it ordinarily sells to other countries. Hungary has indicated that it could compensate for exports to the USSR by importing cheap barley from Western Europe. Overloaded rail transport facilities evidently represent the major obstacle to reaching the 800,000-ton target, although shipping part of the grain via the Danube could relieve some of the strain. []

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Soviet Perspectives

A [] Soviet [], without explaining the basis for his calculation, has estimated that the 17-million ton grain deficit will reduce meat availability by 13 percent. We believe, however, that the impact will be substantially less, in part because of Soviet adjustments following the embargo. With a likely diversion of roughly 4 million tons of grain, additional slaughter of hogs and poultry, and an average harvest this year, we project a 3-percent decline in meat availability. Nonetheless, last year's bad harvest together with the American grain embargo make a good harvest this year imperative. Because of the grain/meat problem a Party Central Committee Plenum devoted to agriculture may be held in March. []

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Franco-Soviet Credit Pact

Two unresolved issues concerning credit maturity are holding up implementation of the new French-Soviet credit pact (SITREP No. 6 reported that the two countries had reached agreement in principle on new credits). Moscow apparently is willing to accept a repayment period of 51 months — compared with its initial demand for an 84-month maturity — but the French still find this period too long. In return for concessions on the repayment period, the Soviets evidently are demanding that repayments begin only after installation of imported equipment and not after shipment. The French, however, object to financing Soviet construction delays in this fashion. French credit negotiators, who are traveling to Moscow this week, have received explicit orders not to yield to the Soviets on this issue. The credit pact will run for 6 years, but with the terms subject to review in September 1981. []

President Giscard apparently continues to exercise tight and direct control over the pace and substance of the Franco-Soviet negotiations. French Foreign Trade Minister Deniau reportedly has played a secondary role in the credit talks. In dealing with the Soviets, the foreign trade bureaucracy may have advocated a softer line than was acceptable to Giscard. []

Commercial Negotiations

After a three-month hiatus, Moscow has renewed talks with Pechiney, a French firm, for a \$500-million aluminum smelter at Sayansk. Kloeckner, the West German firm that is also competing for the contract, has developed a proposal based on Soviet technology as a substitute for Alcoa technology. Kloeckner made substantial progress in talks with the Soviets in early February but later rejected Soviet efforts to change terms already agreed upon. Consequently, Moscow has now turned to Paris — a move the Germans view as a bargaining ploy. []

The Olympics: Alternative Games

The progress that the Steering Committee on Alternative Games is expected to make at its 17-18 March meeting in Geneva probably will not elicit greater West

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European support for an Olympic boycott. Prime Minister Thatcher hopes that British Olympic Association opposition to an Olympic boycott will soften if British athletes can compete elsewhere. At present, however, it appears that a British team will go to Moscow regardless of the government's stand. []

West Germany has refused to attend the meeting even as an observer. The government probably feels that early identification with the Steering Committee would advance Bonn's positive -- but cautious -- boycott position too quickly. Italy and France, which increasingly seem prepared to boycott Moscow if the Soviets do not leave Afghanistan, are in a similar position. While West European support for an Olympic boycott is slowly building, a movement toward setting up alternative games is not likely to push governments to announce a boycott much before the 24 May deadline for national acceptance of invitations to Moscow. []

Pakistan: Update on Western Aid

Western nations have been slow to ante up for new aid programs, partly because of Islamabad's unwillingness or inability to demonstrate its need for aid to prospective donors. Only Japan among the members of the "Pakistan Aid Consortium" (established in 1960 to facilitate the flow of Western economic aid) has actually committed itself to aid much beyond the levels of previous years. Tokyo this past week decided to boost its economic aid to \$127 million, compared with \$60 million last year. Of the total, \$95 million is a concessional yen credit and \$32 million is a grant. Zia had hinted earlier that he wanted \$180 million from the Japanese. Disbursement will likely favor rapid delivery of commodities rather than longer-term projects. Tokyo is holding back on Zia's request for \$37 million in debt relief pending a decision on debt rescheduling by the United States, Pakistan's largest creditor. []

West Germany has reaffirmed that it will not raise 1980 assistance beyond the \$73 million set prior to the invasion of Afghanistan, which already reflected a 20-percent gain over the 1979 level. West Germany favors rescheduling within an IMF/IBRD forum of the \$45-\$50 million in debt payments owed to Bonn. Late last month France said it could add \$37 million in 1980 to its

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existing \$61 million program "if necessary", but was dismayed that Pakistan had not yet drawn on the earlier offer. The Netherlands has designated Pakistan as a "targeted developing country" but is reluctant to assign large amounts of new aid because Pakistan is having trouble absorbing the \$30 million committed last year.
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The following table lists (a) the quantities of non-US grain, excluding rice, potentially available for delivery to the USSR between 4 January 1980 and 31 September 1980 beyond those contracted for before 4 January and (b) reports of post-embargo sales to the USSR.

(Million US Tons)

<u>New Sales to the USSR</u>			
<u>Exporter</u>	<u>Total Grain Available</u>	<u>Confirmed</u> ²	<u>Unconfirmed</u> ^{2,3}
Argentina	4.5	2.3	1.7
Australia	0.4	0.1	.
Canada	2.0	1.7	0.1
EC	1.0	.5 ⁴	
South Africa	.2		
Thailand	0.1	.03	
Other	<u>1.2</u>	<u>.5</u>	<u>.5</u>
<u>Total</u>	9.4	5.13	2.3

¹ CIA estimates of available grain include: the quantities of non-US grain that either have not been sold as yet or that might become available to the USSR through swapping or shifting of contracts, transshipment, and re-exports by 1 October 1980.

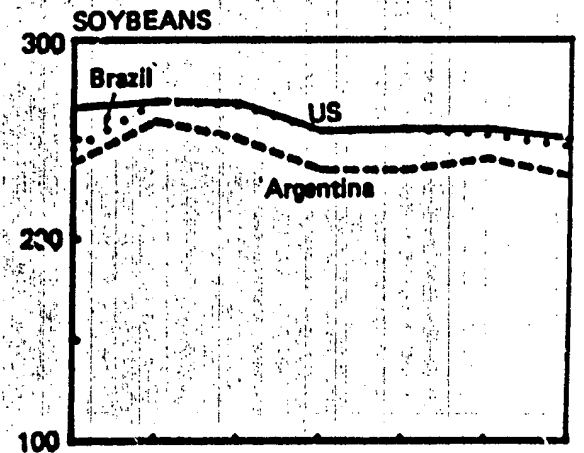
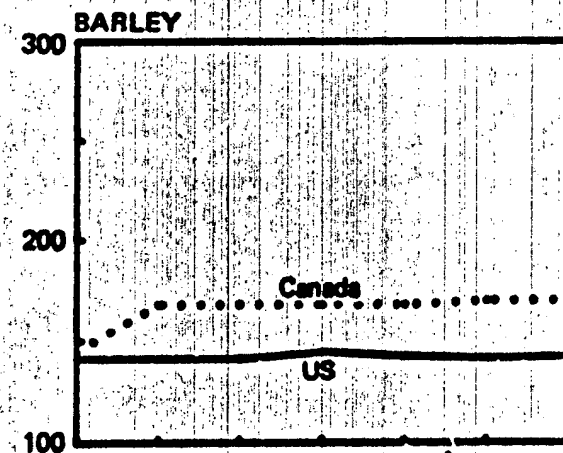
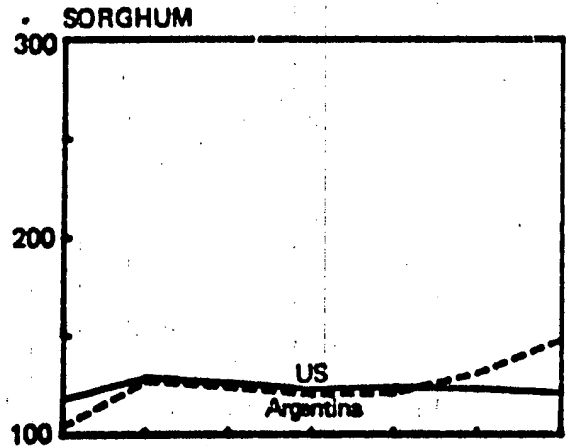
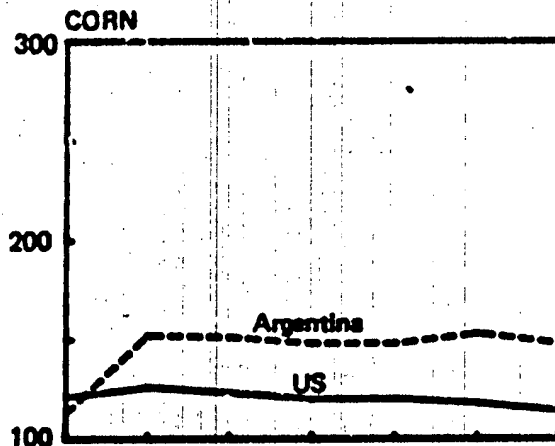
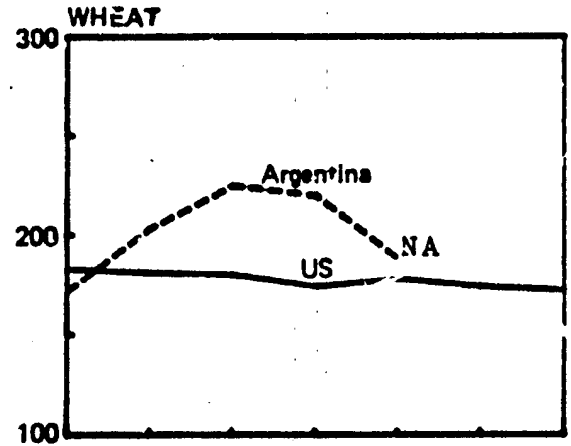
² Cumulative total since 4 January 1980.

³ Includes rumored sales and sales under negotiation.

⁴ Includes flour sales to USSR or Vietnam.

Selected Grain Prices

US \$ per ton



Pre-embargo 4 Jan 5 Feb 12 20 26 3 Mar 10 1980

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